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LAND TENURE PROBLEMS AND RESEARCH NEEDS  
IN THE MIDDLE WEST

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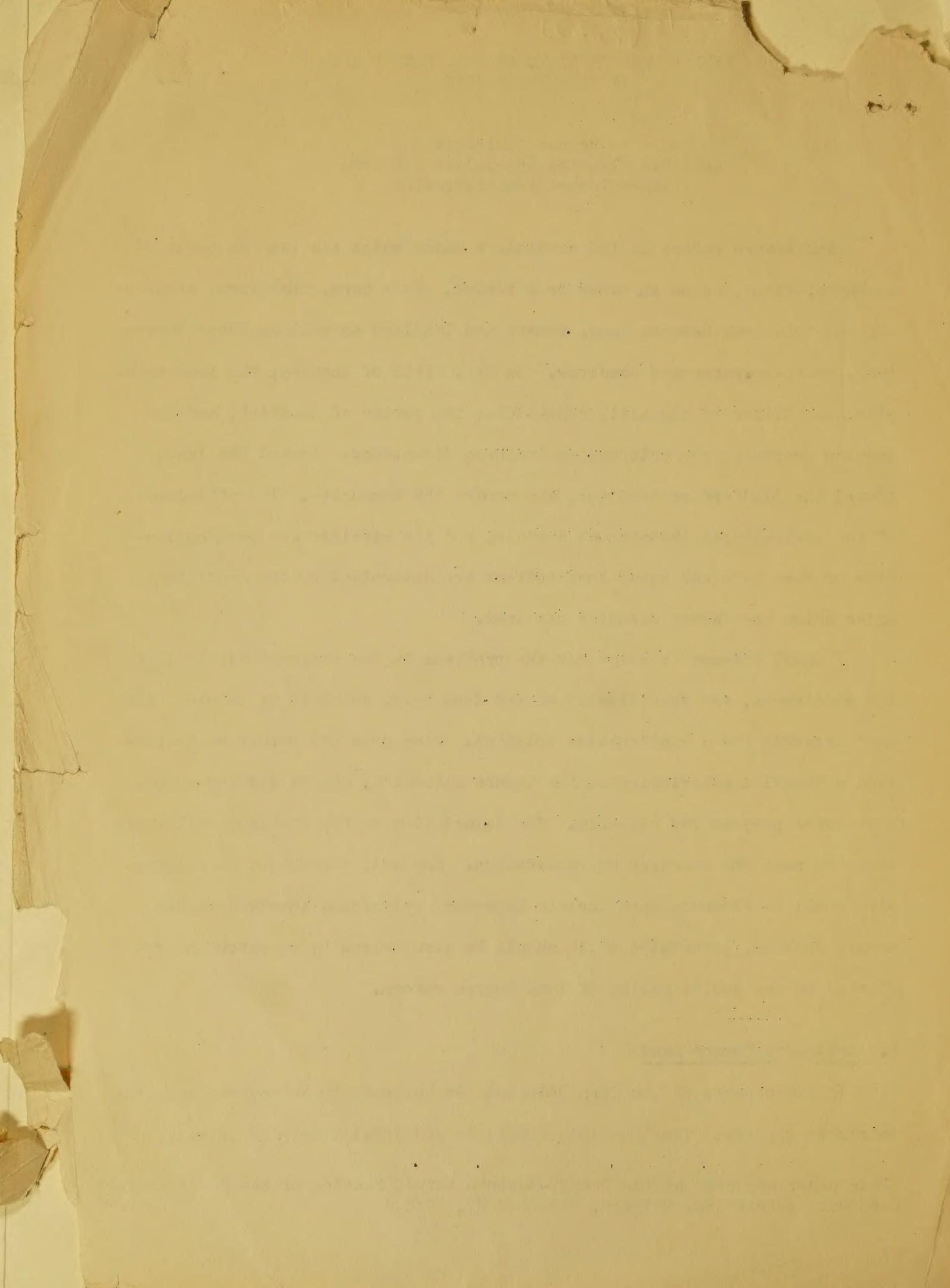
Land tenure refers to the conditions under which the land is occupied by the operator, be he an owner or a tenant. This term, therefore, comprises the relations between land, tenant and landlord as well as those between land, owner-operator and creditor. In this field of inquiry, the land occupier, the tiller of the soil, constitutes the center of interest, and the inquiry proceeds from this center in three directions: toward the land, toward the landlord or creditor, and toward the community. The efficiency of the agricultural industry as a whole, and the vitality and progressive-  
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ness of farm life and rural institutions are determined by the conditions under which the farmer occupies the land.

I shall attempt to point out the problems in the tenure conditions of the middlewest, and specifically of the Corn Belt, which in my opinion call most urgently for a constructive solution. Time does not permit me to present a detailed description of the tenure situation, and to develop a comprehensive program for research. The demarcation of the problems will indicate the need for research by implication. Emphasis throughout the discussion shall be focussed upon certain important principles involved in the tenure problem, principles which should be scrutinized by research and reflected in any public policy of land tenure reform.

#### Attitudes Toward Land

In large parts of the Corn Belt land is believed to be endowed with two intrinsic virtues: inexhaustible fertility and infallible rise in value.

(This paper was read at the Twenty-Seventh Annual Meeting of the American Farm Economic Association, Chicago, December 29, 1936.)

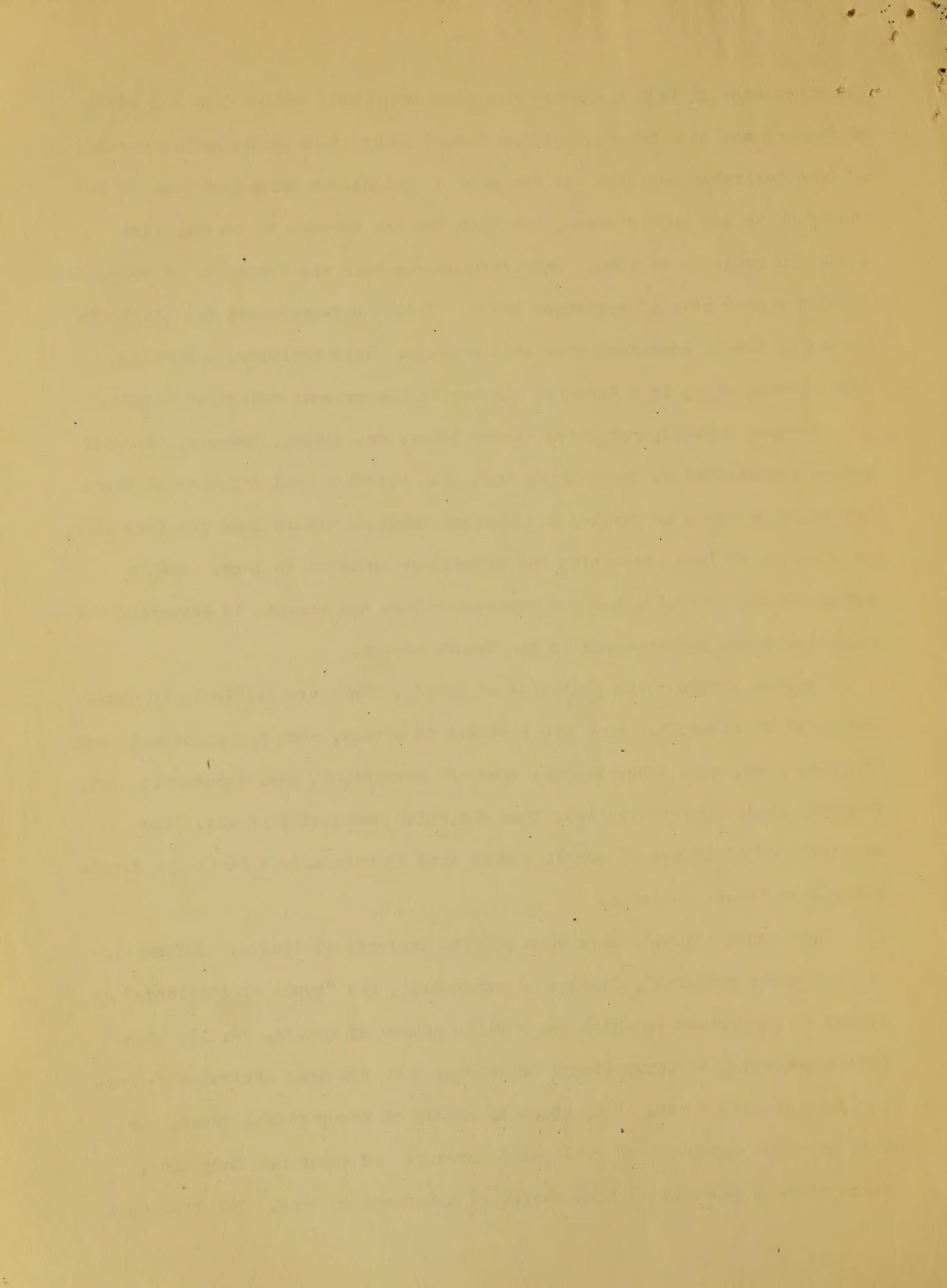


The experience of half a century has inoculated this belief into the minds of farmers and city people. It has formed an attitude which made ownership of land desirable not only for the sake of building a permanent home to be passed on to son and grandson, but also for the purpose of getting rich quick and retiring to town. Many farm houses bear the character of temporary shelter rather than of permanent homes. Many owner-operators and landlords refuse to become concerned over soil wastage. This attitude, a heritage from pioneer days, is a foreful element in the present system of tenure.

Younger farmers, receptive to new ideas, are likely, however, to churn recent experiences in their minds and, with almost a full lifetime of farming ahead of them, to develop a different attitude toward land and farm life, an attitude of less exploitive and transitory interest in land. Such a change in the attitude, both of owner-operators and tenants is essential for achieving basic improvements in the tenure system.

We know little about attitudes of people. They are difficult to enumerate and to classify. Some are rational in nature, some are emotional; some are conscious, some subconscious; some are persistent, some ephemeral. But, whatever their characteristics, they determine modes of land use. The knowledge of attitudes of people toward land is extremely valuable in developing land tenure policies.

Some crude attempts have been made to indicate attitudes. Information on "ownership patterns", "intent of ownership", and "types of landlords" is useful to the extent to which the various groups of owners, usually classified according to occupational interests, have distinct attitudes characteristic of each group. Yet, there is hardly an occupational group, perhaps with the exception of real estate brokers and insurance companies, which shows a substantial homogeneity of interests in land. The fact that



a business man owns a farm does not reveal whether he holds it for speculation, for permanent investment, or as a personal hobby; whether or not he is dependent upon rent as a major part of his livelihood; whether his background or philosophy is essentially urban or rural.

We have yet much to learn about the various motives for owning or operating land. What are the rational and emotional components determining human behavior in relation to land? Which are inherited from pioneer days; which are conditioned by racial stock and cultural traditions; which have emerged from the rapid commercialization of midwest agriculture; which are reflexes of the hectic experiences of the war boom, the post war slump and the recent depression? How strong is the aspiration to ownership among tenants, how tenaciously do owners hold on to their equity in land, and for what reasons? What has been and what will be the balance of emphasis between farming as a mode of living and farming as a business enterprise?

I am fully aware of the difficulties involved in obtaining reliable information on attitudes. The common survey and questionnaire technique probably will prove insufficient. We must strain our imagination in order to devise more ingenious methods for gathering information on many important social and psychological aspects of the tenure problem. <sup>1/</sup>

I should like to emphasize from the beginning that tenancy problems are concerned primarily with impersonal landlord-tenant relationships, with tenants and landlords who are not family-related, who are not connected by ties of personal loyalty or other elevating emotions, but who deal with one another on an objective businesslike basis. This eliminates from our consideration most of the family-related tenants and some unrelated landlords

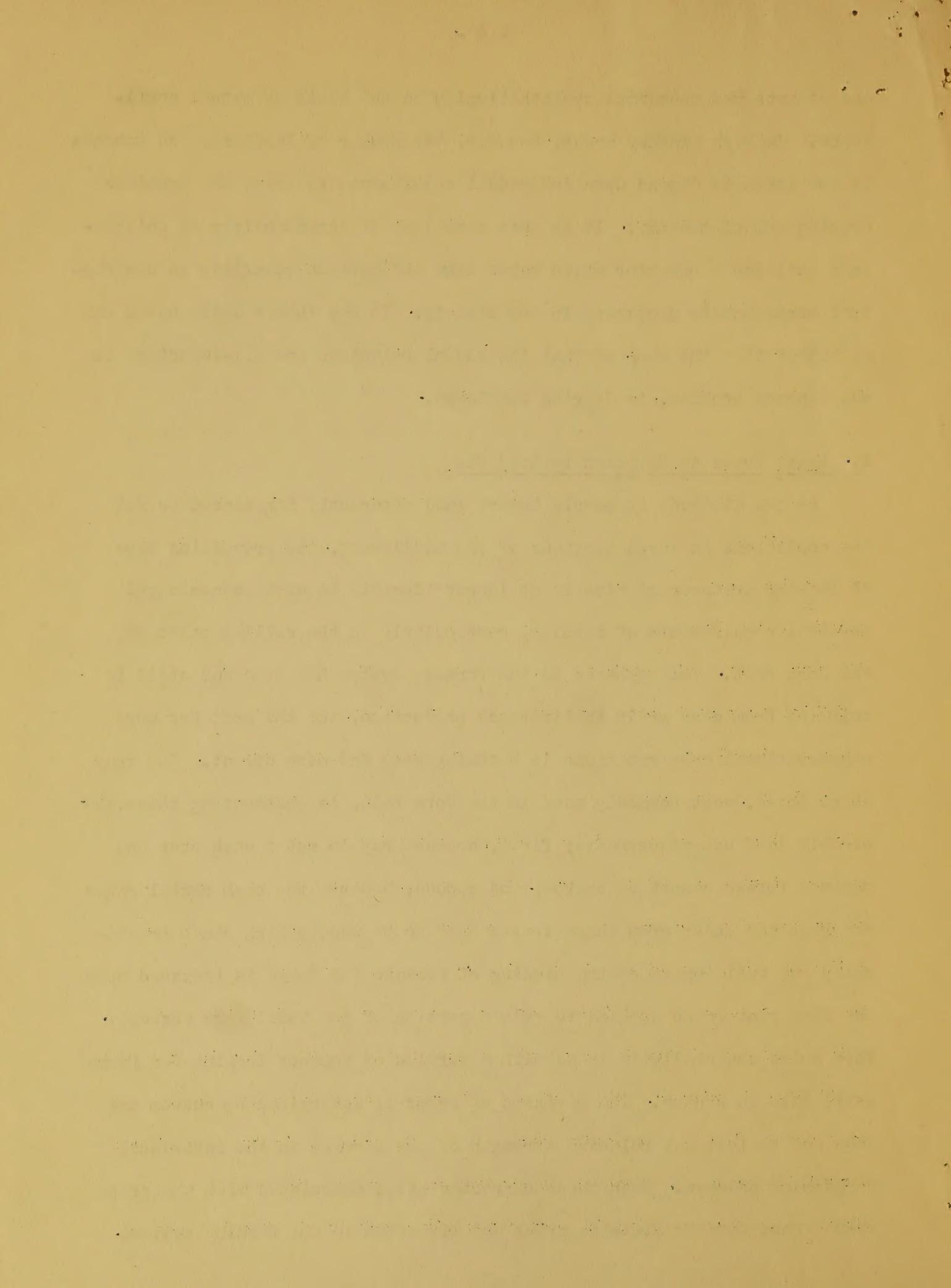
1/ See H. M. Kelso, A Critique of Land Tenure Research. Journal of Land and Public Utility Economics, November 1934.



and tenants who cooperate sympathetically on the basis of mutual confidence. In high tenancy areas, however, the number of landlords and tenants is too large to depend upon individual adjustments to solve the problems arising out of tenancy. It is this very lack of dependability of enlightened individual behavior which makes laws and certain standards in contractual arrangements necessary in any society. To say that a lease never can be better than the man, and that individual relations are all-important in the tenancy problem, is dodging the issue.

## 2. Lease Types in Relation to Land Use

As the attitude of people toward land apparently has ceased to fit the conditions in large sections of the middlewest, the prevailing type of leasing arrangement also is no longer adequate to meet economic and physical requirements of farming, particularly in the rolling parts of the Corn Belt. The emphasis in the farming system has been and still is shifting from cash grain to livestock production, and the need for more conservational crop rotations is becoming more and more urgent. The crop share lease, most commonly used in the Corn Belt, is obstructing these desirable land use adjustments; first, because hay is not a cash crop and pasture forage cannot be shared, and second, because the cash rental rates on grassland under crop share leases tend to be unduly high since practically the full impact of the bidding of tenants for farms is focussed upon the cash rent rates applied to only a portion of the total farm acreage. This holds especially in areas with a surplus of tenants looking for farms until late in winter. The division of crops is determined by custom and does not reflect the relative strength of the parties in the individual bargaining process. Both these characteristics associated with the crop share lease tend to minimize grass and livestock in the farming system.



While the stock share lease, as a minor lease type in the Corn Belt, is deliberately chosen by landlord and tenant to fit livestock farming, the crop share lease is indiscriminately accepted by landlord and tenant regardless of the desirable farming system. Hence, the crop share lease tends to force the farming system to adapt itself to the leasing arrangement even if the physical characteristics of the area require pasture and hay crops to occupy a prominent place in the land use pattern. The cash rent lease neither favors nor discourages any specific enterprise. The cash rent tenant is in a position similar to that of an encumbered owner-operator. As soon as he can no longer meet his fixed cash rent obligations, or for some other reason anticipates the loss of the farm, he starts to exploit the land and neglect the improvements.

The crop share lease is least adaptable to desirable agricultural adjustments on rented land, and its use should perhaps be restricted to farms suited to strictly cash crop farming. The stock share lease requires too close a partnership between landlord and tenant to become of great importance in high tenancy areas. The cash rent lease is best adapted to the advanced stage of commercial agriculture in the midwest, perhaps with the exception of areas with high climatic risks. Here, the cash rent could possibly be adjusted to some income index based on average production times price in the local area. Regardless of which of these lease types is to be adapted to any given set of physical and socio-economic conditions, it should be remembered that without a reasonable degree of security of tenure and opportunity for the tenant to exercise his own initiative, no efficient and conservational mode of land use can be expected to evolve.



3. Security of Tenure and Land Use

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Recent studies <sup>1/</sup> reveal that tenants who are family-related to their landlords tend to follow land use practices very similar to those employed by owner-operators, while heavily encumbered owner-operators, at times, exploit their land almost as ruthlessly as do the "commercial" tenants who are not related to their landlords. The explanation lies largely in the different degrees of security of tenure. The "family-tenant" is, like the average owner-operator, reasonably well assured of his occupancy of the farm and is naturally interested in the maintenance of its productivity. The non-related tenant, like the heavily encumbered owner-operator, does not know whether he will be on the same farm a few years hence, and he is primarily interested in drawing out of the farm during the current year as much as possible, regardless of its future productivity.

There is, however, an important difference between the behavior of the encumbered owner and the tenant. The exploitive pressure upon the soil resources on heavily mortgaged farms is intermittent, is reduced in periods of good prices when the sheriff is out of sight, and intensified in periods of depressed prices when the sheriff is just outside the door; the exploitive pressure on many rented farms is chronic, regardless of the price situation, since the operator's tenure is chronically insecure. <sup>2/</sup>

The exploitive effect of insecure tenure on rented land is in some cases checked by the landlord's supervision of the tenant's management; in

1/ See Rainer Schickale and John P. Himmel, "Economic Phases of Erosion Control in Southern Iowa and Northern Missouri," Iowa Agr. Exp. Sta. Bul. 333; and, by same authors, "Land Tenure in Relation to Land Use," to be published by Land Utilization Division, Resettlement Administration.

2/ It is interesting to note that European students of land tenure distinguish between three phases in the management of the farm under a long-term lease: (1) the "investment phase" during the first few years, (2) the "normal production (or rental) phase" during the main period of the lease, and (3) the "liquidation phase" during the last two years of the term. See Karl Brandt, Die Lehre von der Pacht, in "Handbuch der Landwirtschaft", Paul Parey, Berlin 1930, page 550. A major part of the rented land in the Corn Belt is farmed continually in the "liquidation phase" of management.



•thers it is enhanced. Depending upon the landlord's attitude toward and knowledge of his farm, in some cases the landlord prevents his tenant from exploiting the land too severely, in others he forces the tenant to exploit the land to the limit. In general, this practice of leaving the supply of grass seed and lime and the control over the crop system to the landlord represents substitution of landlord's supervision for tenant's initiative.

This substitution is incomplete and unsatisfactory, as it is clearly revealed by statistical data and observations of land use practices on rented land. Many landlords are incompetent in matters of farming, and many tenants do not abide by the lease provisions intended to safeguard the land, as these provisions are distinctly contrary to their short-time interest in the land. The enforcement of managerial lease provisions under conditions of unstable tenure is difficult, and is more likely to lead to frictions and rapid turnover of tenants rather than to conservational farming methods. Security of tenure is a better safeguard for the land than is landlord supervision. <sup>1/</sup>

To illustrate: the suggestion is frequently made that a good lease should provide for a certain minimum amount of crop land to be seeded to grass. This represents a managerial provision designed to safeguard the land from being overcropped. If this provision is part of a one-year lease without continuation clause, and possibly with a high cash rental on grass-land, it is hardly enforceable without seriously depressing the tenant's economic status, as the tenant cannot afford to keep sufficient livestock to

1/ This problem should not be neglected in developing a long-time soil conservation program. Roughly speaking, such a program on owner-operated farms has to compensate the owner for immediate and temporary sacrifices involved in changing his farm organization; on tenant-operated farms the program has in addition, to compensate the tenant for lack of security of tenure and for inadequacies in common leasing arrangements, if it is to achieve comparable results without working hardships upon the tenant. The soil exploitative character of our tenancy system cannot fail to seriously diminish the effectiveness of the soil conservation program on rented farms, unless the program definitely provides for improvements in the leasing arrangements.



profitably utilize the grass. Even if the landlord furnishes the grass seed, the tenant may sell the seed rather than seed it, and take chances on being removed.

On the other hand, if an automatically continuing lease provides for compensation of unexhausted soil improvements, such as grass seedings and lime applications, it will be in the interest of the tenant to keep the land productive, and he can afford to do the seeding and liming on his own initiative. Such tenurial provisions would render a stipulation of a definite minimum grass acreage on the cropland applicable, yet perhaps superfluous provided the tenant is a competent manager. Managerial competence, however, can hardly be replaced by lease provisions.

Some people see a solution of the tenancy problem in the establishment of professional farm management services for landlords. Such services, being employed by the landlords, may increase the effectiveness of landlord supervision in safeguarding land productivity, but may do so at the expense of the tenant's freedom of management and his standard of living. Professional management services as a major part in a tenancy system which is as inconsiderate of the tenant's interests as is the present system in the Corn Belt, is likely to produce social disadvantages outweighing its technical advantages.

Research work directed toward the development of better lease contracts should, I believe, be focussed upon tenurial rather than managerial provisions. The latter may supplement, but can never replace the former.

#### 4. Time Provisions in Leases

When a tenant rents a farm, he agrees to pay a certain rent, to keep up improvements, to grant the landlord a lien on all his personal property, and



in return he obtains the use of the farm for one year, possession of the farm to be surrendered at the expiration of the lease upon fifteen or thirty days' notice. <sup>1/</sup> How efficiently can he apply his managerial ingenuity, his labor and capital, under such conditions? He can grow corn and oats and raise hogs. All his capital must be in a liquid or movable form by the end of the year. Opportunities to achieve a more complete utilization of his labor, to develop processing enterprises requiring higher skill and longer-time investments, to exercise continuity of effort in maximizing the returns from his resources--an all important process in attaining a high degree of aggregate efficiency--all these opportunities are practically closed to him. It goes without saying that the cultural and social development of farm life is equally handicapped under such tenure arrangements.

Security of tenure and opportunity to exercise initiative and develop managerial competence on the part of the tenant are cornerstones of an efficient tenancy system, which are deplorably lacking in the Corn Belt. In January, 1935, over one-third of all tenants occupied their farms for only one year or less in all middle-western states except Nebraska. The average length of the tenant's occupancy of a farm is about four years in Iowa. It is, however, not the length of past occupancy, but of anticipated future occupancy which determines the farming methods of the tenant and his interest in land and community. Regardless of how long a tenant stays on one farm, if he does not know before fall or winter of any year whether he can stay for the next season, he will tend to keep his assets liquid, to say nothing of liquidating some of the landlord's assets, too. This behavior cannot

1/ It is true that many tenants know by September whether they can stay for the next year. But this knowledge is often "unofficial", and the landlord is not bound legally to renew the lease after a certain date has elapsed. In areas of keen tenant competition for farms the lack of definite continuation provisions and of a definite date of notification inserts a strong element of uncertainty in the tenancy system.



fail to depress the long-time aggregate efficiency of the agricultural enterprise, particularly in areas of high tenancy.

Similarly, the permanent improvements on rented farms remain under-developed. The tenant is not interested in good barns, as he cannot, under a straight one-year lease, keep enough livestock to make profitable use of them. He is not willing to pay the rent for an extra good set of buildings, and consequently the landlord is not interested in furnishing it. Many rented farms in the Corn Belt are definitely under-improved with respect to the requirements of the farming system which would be best adapted to the land and general farming conditions.

Long lease terms are unpopular in the Corn Belt. This is probably not because of difficulties of rent adjustments to price fluctuations, since the majority of leases are share leases; it is more likely that the unpopularity of long-term, that is three to five year, leases results from the pioneering spirit and customary mobility of farmers, from the attitude of landlords and tenants toward the land, and in many instances, from their transitory interest in the farm. The landlord wants to be free to sell the farm any time. The tenant wants to move to a better farm rather than to improve his present one, which is only natural under prevailing tenure arrangements. Out of this transitory interest in the farm on both sides, a mutual distrust develops between landlord and tenant which again increases the unpopularity of long lease terms. <sup>1/</sup>

Discussions on tenancy problems with many farmers in Iowa lead me to believe that the reluctance to enter a three to five year lease is much

1/ It should be noted that "long-term" leases refer, in this discussion, to leases running for 3 to 5 years, instead of just one year. In Europe, such leases are definitely classed as short-term leases. In Sweden, the shortest lease term recognized by law is 5 years. The proposal of long-term leases in the European sense, covering a period of 10 years or more, would be considered preposterous in the Corn Belt.



stronger on the landlord than on the tenant side. This would support the view just expressed, that it is not the fixity of rent which renders the long-term lease undesirable, but the general instability of land tenure relations and the speculative element in the landlord's intent of ownership which accounts for the rareness of long-term leases. It would be greatly worthwhile to gather more systematic information on the workings of three to five year leases.

An automatic continuation clause in a one-year lease with an early date of notification implies that the lease shall remain in effect over an indefinite period of years until notice is served by either party, while the straight one-year lease explicitly states that it expires at the end of the year. The general adoption of the automatic continuation clause with at least six months' notice as a standard lease provision required by law would find strong support among farmers. Two-year leases with one-year period of notification are now used only in few exceptional cases, but deserve serious attention and should be widely tested as they promise to be peculiarly well adapted to the Corn Belt where most of the grass seeding is done in the spring.

To render such provisions effective, it will probably be necessary to establish by law standard rates of penalty to be applied if either party disregards the time provisions of the lease, perhaps along the lines of the "disturbance" payments under the English tenancy laws.

##### 5. The Tenant's Opportunity to Exercise Initiative

Increasing the security of tenure on rented farms cannot fail to stimulate the tenant's interest in the preservation of land and improvements. Yet, it is not sufficient for a full development of his managerial capacity.



As the country grows older, the landlords, as a class, become more removed from the daily realities of farm life. Moreover, these realities are becoming more complex. The expansive phase of agricultural land settlement is over. Soil conservation requires more carefully balanced rotations. Most agricultural adjustments to changes in demand will occur in the intensive margins of production, that is on the land now in farms. Farming in the Corn Belt is becoming a more highly skilled occupation requiring more differentiated managerial abilities. Remote control of management through landlord supervision will no longer suffice to lead agriculture toward higher plane of efficiency. As long as substantial areas in the Corn Belt continue to be operated by tenants, the development of an alert and progressive class of tenants is of vital importance. This holds whether tenancy is conceived as a permanent tenure status or as a rung in the "agricultural ladder."

Under present leasing arrangements the landlord has complete control over all permanent improvements on the farm, and substantial control over semi-permanent soil improvements, such as seedings of perennial grasses and legumes and applications of limestone, and over the general type of crop system to be followed. The tenant cannot, on his initiative, add to the improvements; in fact he cannot even provide materials for necessary repairs, since this would give him an equity in the farm which is not recognized under his lease. He depends entirely on the willingness and ability of the landlord to furnish any materials that go into the fixtures on the farm. Nor can the tenant seed alfalfa or spread limestone at his own expense, since he loses his claims to the fruits of his effort in case the lease is not renewed. If he builds up the productivity of the farm, he increases



the value of the landlord's property without being entitled to any compensation for his contributions. Nothing prevents the landlord from charging rent for improvements in land and buildings the tenant has made. The strangling effect of these tenure arrangements on the tenant's initiative can hardly be overemphasized, particularly since it has been almost completely ignored by commentators on tenure conditions in the Middlewest.

The principle of compensation for unexhausted improvements recognizes the right of the tenant to accumulate an equity in the farm he occupies, and protects his equity from seizure by the landlord, at the expiration of the lease, without due compensation. The most important contribution this principle can make to the improvement of tenure conditions in the Midwest is to release pent-up managerial energies, to provide the tenant with an opportunity to exercise his initiative and to plan his farming program ahead beyond the date of expiration of his lease.

The application of the principle of compensation involves two technical problems: (1) certain limitations must be placed upon the improvements the tenant may make; and (2) some efficient method of impartial value appraisal of the improvements must be developed.

The first problem is relatively simple to solve by classifying improvements into two or three groups requiring different procedures. For instance, the first group may comprise semi-permanent or minor improvements which the tenant may make without consent of the landlord, such as liming the soil, repairs on buildings and small additions, new fences; the second group may include all other improvements which the tenant may make only with the consent of the landlord. Similar classifications are in common use in England and other European countries. <sup>1/</sup>

1/ See Marshall Harris, Agricultural Landlord-Tenant Relations in England and Wales. Land Use Planning Publication No. 4. Resettlement Administration.



The second problem is more difficult to solve. It requires the development of an adequate appraisal technique and the education of a number of farmers as competent appraisers who may be called upon, in case landlord and tenant cannot agree between themselves, to determine the value of the unexhausted parts of improvements the tenant made. <sup>1/</sup> Such impartial appraisal service could perhaps best be rendered by local farmers, assisted by educational and research institutions. In the majority of cases, those appraisers would help tenant and landlord to agree to a fair valuation and to settle any disputes out of court by submitting to arbitration.

The principle of compensation for unexhausted improvements with its implications is new to farmers in the Corn Belt. Yet, its recognition is essential if tenancy conditions are to be improved in the interest of agricultural progress. Its application may, in the beginning, perhaps be confined to semi-permanent soil improvements and building repairs, and gradually expanded as the tenant's security of occupancy increases and his managerial initiative develops.

Much research is urgently needed to work out proper appraisal methods for the specific purpose of evaluating unexhausted improvements. Such research should be systematically organized by Experiment Stations and Extension Services. In ten or twenty years from now the training of men for the evaluation of unexhausted improvements may become an important task of the Extension Service in the Middle West. We can learn much in this field from the experiences of European countries.

1/ In England most counties have an "association of agricultural valuers", and fairly definite schedules are being used in evaluating the more common improvements involved.



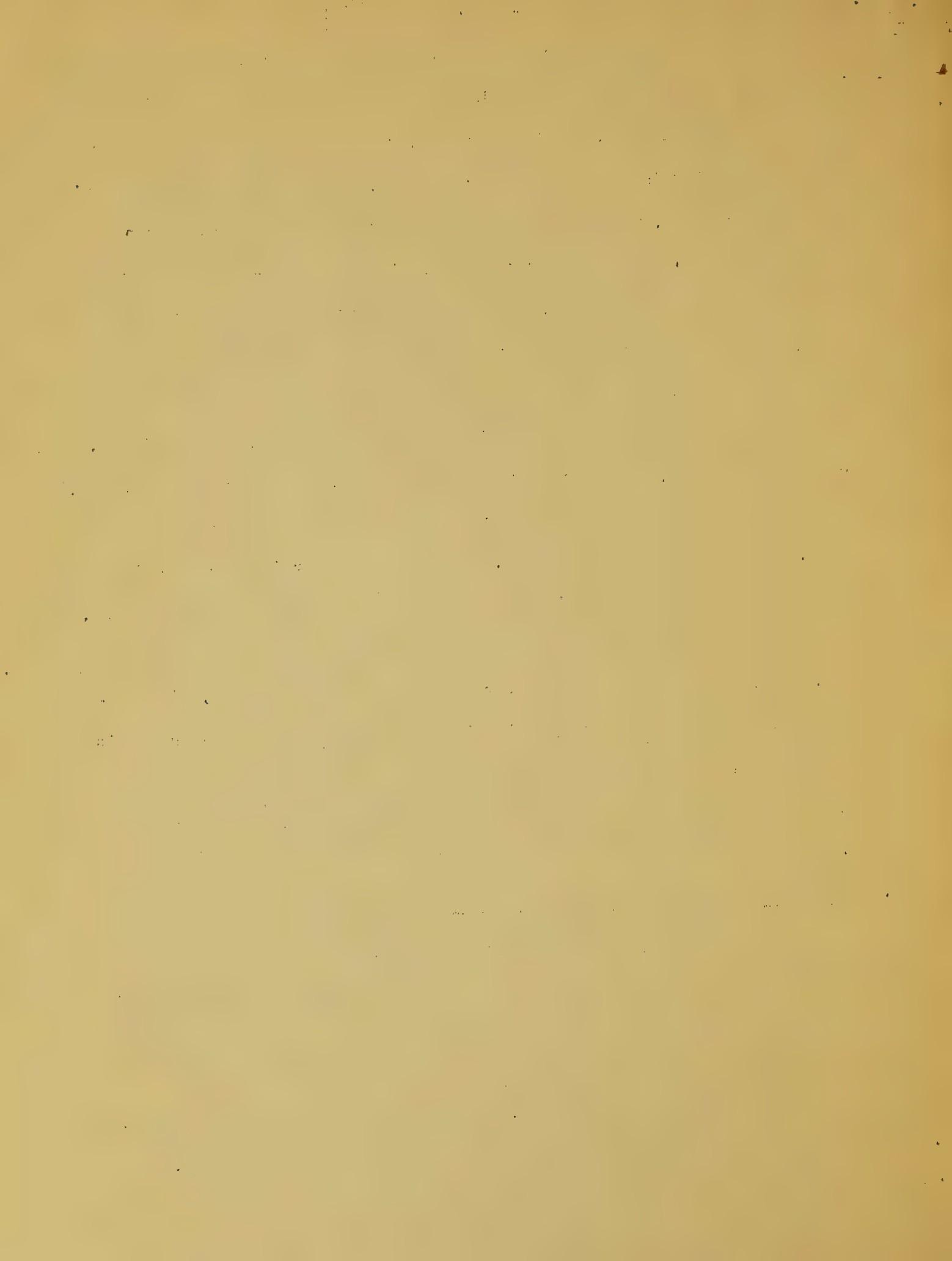
Policies designed to improve landlord-tenant relationships in the Middle West should move mainly along three lines: (1) recognition of the principle of compensation for unexhausted improvements, of the right of the tenant to accumulate an equity in the farm he is operating; (2) increase in the tenant's security of occupancy, through general adoption of automatic continuation clauses with a reasonably long period of notification (long-term leases are too unpopular for the time being, and even they should have continuation clauses); and (3) development of a continuous and effective educational program, utilizing existing channels as well as opening new ones. I believe that security of tenure and the tenant's right to accumulate, within limits, an equity in the farm, are prerequisites to better management on rented farms, and that the majority of tenants are capable of becoming reasonably good managers. Tenants in the Middle West, as a group can hardly be judged inherently inferior to owners in intelligence and potential managerial ability.

There are undoubtedly many poor tenants who should be eliminated from farming, as there are many poor landlords who should not own land. The present tenancy system is apparently quite inefficient in eliminating the unfit in either group. The indicated changes in landlord-tenant relations are likely to enhance rather than to hamper a desirable selective process in this field.

#### 6. The Function of Tenancy in the Tenure System

Some people believe that tenancy is inherently bad; that the solution of our tenure problems lies not in improving tenancy, but in abolishing it; that ownership of the land by the operator is the only sound foundation upon which rural life can prosper.

Tenancy as a form of land tenure, however, performs some rather significant functions in the tenure system enhancing agricultural progress.



The most important function of tenancy is to enable a young farmer to establish a life of his own long before he has accumulated enough savings to purchase a farm. This function represents the famous tenancy rung in the agricultural ladder toward ownership. If the landlord is well versed in the art of farming he may contribute to the development of the tenant's managerial abilities, and may share part of the risk involved in the operator's inexperience in management. This educational function is quite widely exercised by landlords whose tenants are family related to them. In general, "family-tenancy" as a step in the inheritance transfer of farms is, according to most relevant criteria, essentially equivalent to owner-operatorship and does not engender serious problems in landlord-tenant relations. <sup>1/</sup>

During the tenancy status, it is relatively easy for the operator to adjust farm size, land quality and environment to the needs of his family and to his preferred farming system, by moving to a farm better suited to his purpose. It must be emphasized, however, that in areas of high tenant mobility the majority of moves are precipitated and represent waste of energy and assets, while deliberate purposeful moves require security of tenure for the operator both on his old and on his new farm. <sup>2/</sup> Security of tenure, as conceived in this discussion, does not imply fixity of occupancy. Instead, security of tenure is believed to be essential in order to assure a type of tenant mobility which is purposeful in character and represents adjustment rather than waste. This holds not only with refer-

1/ In 1930, Iowa had the lowest percentage of tenants related to landlords, that is 32 percent, of all midwestern states, while this percentage lay roughly between 40 and 60 percent in most of the other states. The wave of foreclosures and the increase in total tenancy since 1930 probably reduced these proportions considerably throughout the region. In Iowa, about 23 percent of all tenants are estimated to be family-related to their landlords in 1936.

2/ Cf. J. T. Sanders, The Economic and Social Aspects of Mobility of Oklahoma Farmers. Oklahoma Experiment Station Bulletin 1935 August 1929.



ence to the ascent, but also to the descent on the agricultural ladder. Tenancy, in order to serve as a testing ground for managerial competence, must admit of development of managerial initiative before it can effectively eliminate the unfit.

Finally, tenancy as a permanent status enables the operator to invest his savings in operating capital and improvements rather than in land, if his tenure is reasonably secure and his equity in the farm improvements is protected. This gives him an advantage over the encumbered owner-operator, provided that, *ceteris paribus*, his rent amounts to less than do mortgage interest, amortization and taxes paid by the owner.

This sketchy review of the positive elements in tenancy as a form of land tenure may suffice to indicate that tenancy, if its arrangements are properly adapted to its desirable functions, can serve a constructive purpose in the tenure system.

Considerable research is needed before we will be able to draw a more definite line between socially desirable and undesirable forms and proportions of tenancy. What are the effects of character and extent of tenancy upon the general efficiency of agriculture in the respective areas? To what extent is tenancy a permanent tenure status in any given region, for what reasons and with what results? To what extent is tenancy a testing ground for managerial competence, and to what extent is it a breeding ground for incompetence? Tenure histories of farms as well as of farmers should be analyzed in the light of functional relationships between land, man and community.

#### 7. The Perils of Farm Owner-Operatorship

If a farmer owns the full equity in his farm, his tenure is highly secure. Fluctuations in land values and farm product prices do not specific-



cally affect his tenure status. He is a "free-holder", in full command over his property and the income derived therefrom. It is this form of ownership that represents the highest rung in the agricultural ladder and the goal envisaged by proponents of policies designed to abolish tenancy by converting tenants into owners.

Although this type of tenure is unquestionably advantageous in many respects, it is not realizable as a permanent tenure status for a great majority of farmers under a highly commercialized agriculture and under conditions of a high birth rate of the farm population. As long as mortgage loans furnish the cheapest source of agricultural credit, and as the average farm family is larger than is necessary to maintain itself, and as the heirs have, by custom or law, equal claims in the family heritage, the status of free-hold can hardly be permanently maintained on any given farm.

Applying this principle to the tenure pattern of the Corn Belt as a whole, it is easy to see that even if, through some magic, all farmers, owners, and tenants alike, were made freeholders of their land overnight, a large number of them would not maintain this status very long, and even as soon as 10 or 20 years later a considerable part of the land would be mortgaged, and another part operated by tenants. This is essentially what happened after the Midwest was settled under the preemption and homestead laws.

Turning to the status of the encumbered owner-operator, it is obvious that his security of tenure depends upon two interrelated factors: the degree of encumbrance, and the relative stability of the price level. It is

1/ See B. H. Hibbard, History of the Public Land Policies in the United States.



these two factors that are responsible for the perils of farm ownership. They deserve full deliberation in formulating a public policy of tenure reform which sets out to increase owner-operatorship, particularly since long-term mortgage credit furnishes the chief implement for such a tenure policy.

Regarding the ownership aspects of the tenure problem in the Midwest, the relationships between land values, mortgage indebtedness and farm income have been more strained and unbalanced than in any other region of the United States during the last few decades. The West North Central states show by far the highest foreclosure rate in the Union throughout the depression years. <sup>1/</sup> It is extremely important to prevent the reoccurrence of land booms and their disruptive aftermaths.

Wide fluctuations in land values inevitably produce serious maladjustments in the tenure system. Rising land values retard the acquisition of an adequate equity in the land by the operator, engender excessive mortgage burdens, and stimulate land speculation; declining land value precipitate liquidation through forced sales. Both phases in the cycle result in increasing tenancy and reducing security of tenure in general.

It is true that a more stable price level would tend to stabilize land values, but in the past land values have shown an exaggerated responsiveness to changes in prices, considering the long-time character of investment in farm real estate. If we can smoothen the fluctuation in the general price level, well and good, but beyond that, or in the meanwhile, it is highly desirable to reduce the amplitude of land value fluctuations. The development of a scientific method of land appraisal to which private and public lending

1/ See B. R. Stauber and M. M. Regan, the Farm Real Estate Situation, 1934-1935. U.S.D.A. Circular No. 382.



activities should abide by law; legal protection of the owner's equity from foreclosure in case the default in payments is caused by forces beyond the control of the borrower; taxes on speculative profits from land transfers --these are only some suggestions of possibilities in controlling land values which should be fully scrutinized and, if found feasible, be made an integral part of a tenure reform program.

Here lies an abounding field for research. What are the effects of land value changes upon the tenure system, upon extent and character of tenancy and owner-operatorship? How does a rise and a fall in land values influence extent, and speed in which the agricultural ladder is climbed up or down? How does land speculation affect the tenure system? Who buys and who sells land during various phases of the land value cycle, and under what terms and motives? What policies should insurance companies follow in unloading their farms, and how could public agencies assist in effecting a socially desirable sale policy of corporate land holdings? How could land appraisal methods be improved and unified and required to be used by all lending agencies in the field? How should our foreclosures laws be modified to curb speculative foreclosures and reduce disruptions in the tenure of land in periods of crisis?

#### 8. Two Roads Leading Toward One Goal

A public policy is a compromise between a rational plan and the psychology of political pressure groups. The success of a public policy is measured by the balance struck in the compromise.

A rational plan for a land tenure system in the Midwest would probably reserve a prominent place for tenancy in the tenure system mainly for three



reasons (1) land values are high, and more owner-operatorship would inevitably increase to a precarious weight the already heavy mortgage burden; (2) there is little prospect for a relatively stable price level for the next few decades which intensifies the danger involved in an over-loaded debt structure; (3) farming is undergoing important changes, in response to the growing need for soil conservation and to long-time changes in the demand situation, taxing the managerial capacity of the farmer. The risk and temporary sacrifice involved in these adjustments could at least in part be shared between operator and landlord.

Such a plan, therefore, would focus the emphasis upon improving landlord-tenant relationships in the direction of greater security of tenure and better opportunity for the tenant to exercise initiative. This would correspond to the course England has taken in solving her tenure problem.

The psychology of farmers in the Middle West seems to favor definitely an increase in owner-operatorship, through public subsidies in the form of cheap long-term loans available to operators only. This direction would correspond to the course Denmark has taken in solving her tenure problem.

Where will the balance be struck? The desire of the farmer to own his farm and home is as real as is his mortgage debt. The Irish farmer was not content with tenant rights; he fought until he obtained ownership of land.

If the government subsidized owner-operatorship, it does so for the purpose of increasing security of tenure and economic opportunity for the tiller of the soil. Hence, it assumes the responsibility of accomplishing this purpose. A relatively small differential in the interest rate, a reasonably high down-payment on the farm, and a careful selection of the applicants, would constitute effective safeguards in such a policy.

